AR44

# Walbar, Inc.

# Annual Report 1981

## 1951-1981

30 years of precision machined components

for jet engines and gas turbines

# About the Company

In the three decades since its founding in 1951, Walbar, Inc. has evolved into a leading independent producer of precision machined components for jet engines and gas turbines. The Company's jet engine blades, vanes, discs and related components are used in more than fifty commercial, military and general aviation applications throughout the free world and in a growing number of land based or industrial applications.

Spurred by a strengthened demand in all segments of the aerospace industry, Walbar has achieved record performances in each of the past five years. With present backlogs of $105 million and defense expenditures expected to be stepped up significantly by the Reagan administration, Walbar stands prepared to meet the challenge of the eighties with confidence in our ability to meet the needs of our customers for new components for growth versions of their sophisticated jet engines.

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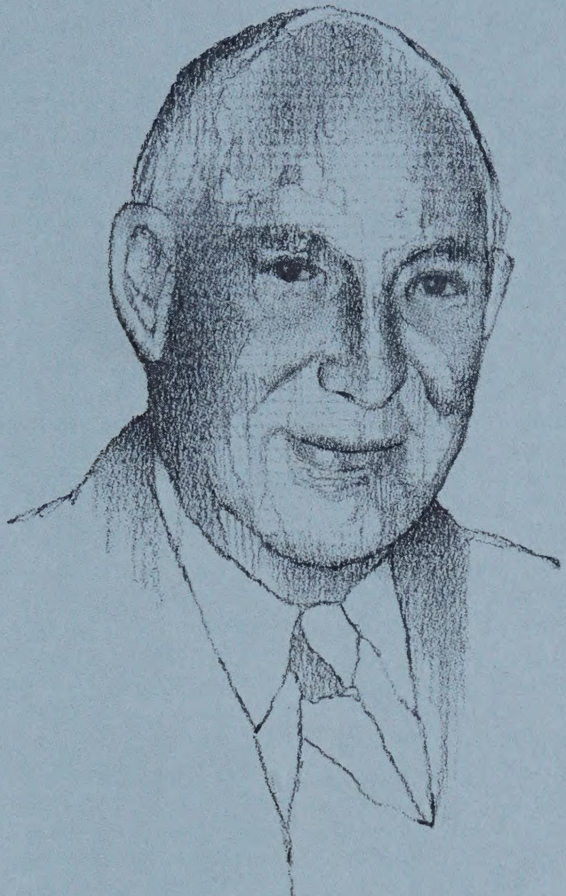
# In Memoriam



**Charles H. Ungerman, Jr.**
**1907-1981**

On Monday, August 3, 1981, Walbar's founder and Chairman of the Board, Charles H. Ungerman, Jr. died at the age of 74.

Blessed with a keen business sense, Charlie possessed a wonderful knowledge of human nature which enabled him to motivate each of us to attain our highest potential.

For the past thirty years he devoted himself with single-mindedness of purpose and great determination to the creation and development of our Company, and his friendship, leadership and wise counsel will be greatly missed by all of us who worked with him these many years.

With our public offering in 1979, Mr. Ungerman laid the groundwork for Walbar's continuity and future growth, and I am confident we can continue to build on the solid foundation which was his legacy.

Douglas F. Hunter
*President*

## Fellow Stockholders:

It is with a great deal of pleasure that I submit Walbar's Annual Report for 1981, its Thirtieth Anniversary, to our stockholders, customers and employees.

Revenues for the year increased 26% from $64.8 million to $81.8 million while net income grew 20% from $7.8 million to $9.4 million. Earnings per share of common stock also increased 20% from $3.02 in 1980 to $3.63 in 1981.

For the past several years, the aerospace industry has generally been in a steady expansion which resulted in our backlogs rising from $25 million at year end 1977 to over $113 million at year end 1980, declining, however, to $105 million at year end 1981. This expansion was the result of a boom in corporate aircraft sales following deregulation of the airline industry, upgrading of corporate aircraft from piston engines to jet engines, increased purchases of commercial airliners brought on by the airlines' need for quieter, more fuel efficient planes and finally a substantial boost in defense spending by the Reagan administration. These factors resulted in the Company's sales increasing from $33.5 million in 1978 to nearly $82 million this past year. Towards the end of the third quarter of 1981, however, we began to see a marked slowdown in both the commercial and general aviation segments of the industry, which worsened when the Air Controllers' strike significantly reduced the number of scheduled flights from the nation's primary airports. Faced with declining passenger traffic and the prospect of insufficient profits to support their equipment needs, many airlines cut back or stretched out their orders for new planes. The reduction in the Air Controllers' force and the resulting closing of many secondary airports similarly affected many corporations' decisions to buy new business jets. The engine manufacturers were quickly affected by these developments and reduced their production schedules and cut back their component inventories in response to the slackening in demand. We do not believe these conditions signal a fundamental change in the longer term uptrend in the aerospace industry, but we anticipate that the weakness in the commercial aviation sector could curtail our shipments during the first half of 1982 and that our rate of growth this year could be considerably reduced from the substantial increases of the past few years.

Over the next several years the most important segment of the industry for Walbar is likely to be the military area. U.S. Defense spending is expected to increase significantly during the balance of the current administration's term. Appropriations for aircraft and missiles should rise substantially. Numerous new U.S. and foreign military programs are now either in development, or in production, which hold great promise for our future growth. These include NATO's Panavia Tornado Multi-Role Combat Aircraft, the F404 powered F/A-18 fighter selected by the U.S. Navy as well as by Canada and Australia, the M-1 Main Battle Tank powered by Avco Lycoming's AGT 1500 gas turbine and the B-1 Bomber powered by four General Electric F101 augmented turbofan engines. With the exception of the Panavia Tornado, which is already in production, these programs are still in the development and testing stages and should continue to expand throughout the 1980's. Equally important, moreover, many of the more mature military programs which form the nucleus of our present military business, including the J85 Turbojet used on the Northrop F-5 fighter, the J79 engine which powers the McDonnell Douglas F-4 Phantom II, the TF34 employed on the Fairchild Republic A-10 Attack Aircraft, and the T58 and T64 turboshaft engines used on various Boeing and Sikorsky military helicopters, should benefit from President Reagan's plans to step up military expenditures at a substantial rate over the next several years.

Although commercial aviation, as previously noted, is presently going through a difficult period, with production of most present generation aircraft cut back considerably, analysts estimate that the market for commercial aircraft during the next decade will

### Financial Highlights

| | **1981** | 1980 | 1979 |
|---|---|---|---|
| Net Sales | **$81,809,434** | $64,838,641 | $47,116,732 |
| Income Before Income Taxes | **17,274,747** | 14,372,700 | 11,304,082 |
| Net Income | **9,440,747** | 7,842,700 | 6,124,082 |
| Net Income Per Share | **3.63** | 3.02 | 2.56 |
| Cash Dividends Per Share | **.39** | .30 | .18 |
| Working Capital | **19,496,660** | 14,772,206 | 12,846,855 |
| Stockholders' Equity | **35,891,929** | 27,465,182 | 20,402,482 |
| Total Assets | **60,292,244** | 50,138,092 | 32,589,235 |

approximate $120 billion. New fuel efficient commercial airliners such as Airbus Industrie's A300 and McDonnell Douglas's DC-9 Super 80 have only recently entered service, while Boeing's widely acclaimed new airliners, the 767 and 757, are still in the development stage. The first 767 deliveries are scheduled for the second half of 1982 and Boeing will start deliveries of 757's in 1983.

General aviation, which has provided the largest portion of our revenues in recent years, should recommence its growth, spurred by new developments such as Pratt & Whitney's all new PT7 advanced turboprop engine and the introduction of new corporate jets such as Canadair's Challenger and Lear Avia's composite material Lear Fan, driven by a turbine powered rear pusher propeller.

In order to meet our customers' long term requirements for Walbar's components, we will continue to commit the largest portion of our earnings to developing additional facilities and adding more modern cost effective equipment. In 1982, we are committing over $7 million to various capital projects including equipping a new plant in Toronto for the manufacture of F404 engine components, further expansion of our electro-chemical machining (ECM) operation in Canada, modernization of our turbine blade form grinding equipment, enhancement of our numerically controlled equipment for machining discs in Tempe, Arizona, Indiantown, Florida and Peabody, Massachusetts and our initial experimentation with robotics as a means of further increasing productivity at our Arizona facility.

Our dividend policy since going public in August 1979 has been predicated on our need to reinvest most of our earnings in new plant and equipment, and this will continue to be our primary consideration. In the second quarter of 1981 we increased our quarterly dividend rate by 1¢ per share to 10¢ per share so that our annual rate is now 40¢ per share. Our cash dividends of 39¢ per share declared in 1981 represent a 30 percent increase over the 30¢ per share declared in 1980.

During the year, Mr. Walter W. Ungermann of West Barnstable, MA was elected a Director to fill the vacancy on the Board resulting from the death of his father, Charles H. Ungerman, Jr., the Company's founder. Also, the Board of Directors was increased by one to ten members and Mr. James F. Farr, a partner in the Boston law firm of Haussermann, Davison and Shattuck and a Trustee of the Charles H. Ungerman Trust, was elected as a new Director of the Company.

As this year marks the Thirtieth Anniversary of Walbar's founding in 1951 by our late Chairman, Charles H. Ungerman, Jr., we thought it appropriate to illustrate in the following pages some of the highlights and advancements which have occurred in our industry during this thirty year period. Over the years, we have developed a close working relationship with many of the pioneers of the jet age through providing precision machined components for their increasingly more complex engines. Walbar has come to be known in the industry as "the jet engine and gas turbine specialist." Our goal has been to provide the best possible service to our customers and to establish a reputation for delivering quality parts, on time, at a competitive price. Our business has flourished and today our customers include nearly all of the free world's leading jet engine manufacturers, such as General Electric Company, Pratt & Whitney Aircraft Division of United Technologies, Garrett Turbine Engine Company, Avco Lycoming, Detroit Diesel Allison Division of General Motors, Motoren-und Turbinen-Union of West Germany, SNECMA of France and Rolls Royce, Ltd. of England.

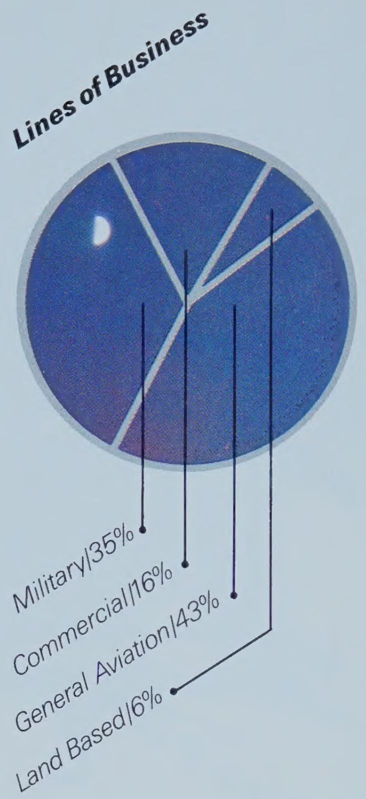
The anticipation of increased demand fueled by stepped-up defense spending has created considerable interest among analysts and investors regarding the Company's future prospects. About a dozen major institutions, including several mutual funds and investment trusts, and quite a few smaller institutional accounts such as corporate pension or profit sharing funds, have invested in Walbar common stock, and we appreciate the confidence these institutions have expressed by investing in our Company's future.

Finally, we would like to express our gratitude to our more than 1200 employees in the United States and Canada for the loyalty, skill and dedication they have demonstrated in serving the aerospace industry. Through the Walbar Employees Savings Plans initiated in 1980, over 500 participating employees in the United States and Canada have become shareholders in the Company. We are pleased that this program will enable our employees to supplement their retirement income and are hopeful that it will also foster even greater interest and participation in the Company's future development.

Sincerely,

D. F. Hunter

Douglas F. Hunter
*President and*
*Chief Executive Officer*



# Military Aviation

30 Years of Aviation Advancements

Rising military defense spending is likely to give the industry its main impetus over the next few years. President Reagan, in his 1983 budget, has proposed a step up in defense outlays of $33 billion, or 18 percent, for fiscal 1983 and this would provide for a significant increase in the procurement of military aircraft and missiles. Walbar's shipments of components for military applications increased by 36 percent to $29.0 million in 1981. Walbar's largest military program in 1981 was again with Motoren-und Turbinen-Union (MTU) of West Germany, on the Turbo-Union RB199 turbofan engine. The RB199 is the powerplant of the Panavia Tornado Multi-Role Combat Aircraft. Walbar is supplying electro-chemically machined compressor airfoils on this important engine program which is now well into its production phase. More than 2000 units are being produced for the British, West German and Italian Air Forces.

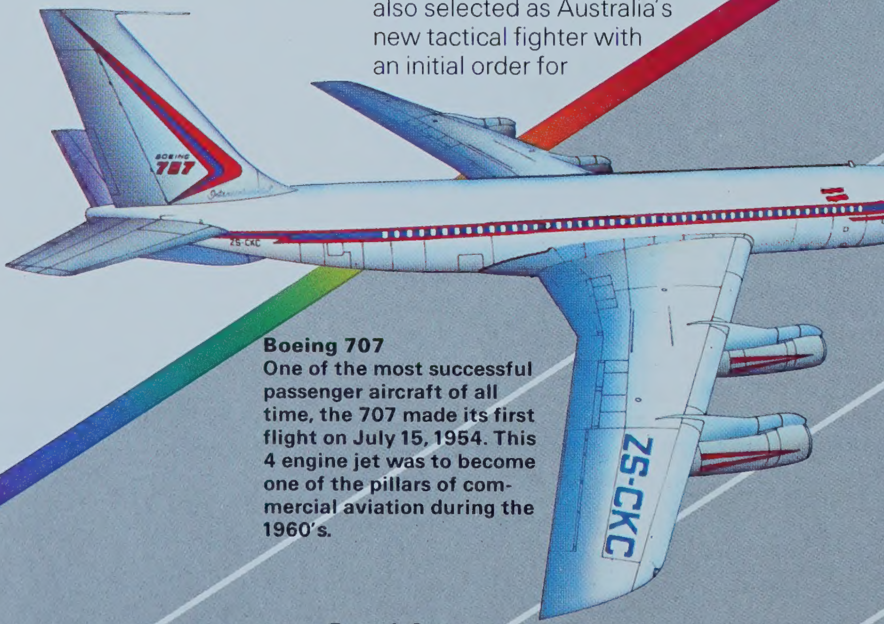
In 1980, the Canadian Government selected the McDonnell Douglas F/A-18 as their new fighter aircraft. In May of 1981 the F/A-18 was also selected as Australia's new tactical fighter with an initial order for 75 aircraft. The F/A-18 is powered by two GE F404 engines, and Walbar has established a new facility in Toronto to produce F404 low pressure nozzle assemblies. The 16,000 lb. thrust F404 has also been selected to power Northrop's new F-5G intermediate fighter. There is a potential market for about 2500 aircraft of this type to replace older F-5's as well as Lockheed F-104's and French Mirages.

Another exciting new program involves Avco Lycoming's AGT 1500 gas turbine engine which powers the Army's new M-1 Main Battle Tank. The potential for this engine over the next decade is for some 10,000 engines. Walbar is presently supplying four stages of ECM'd compressor airfoils and will begin producing compressor discs for Avco in 1982.

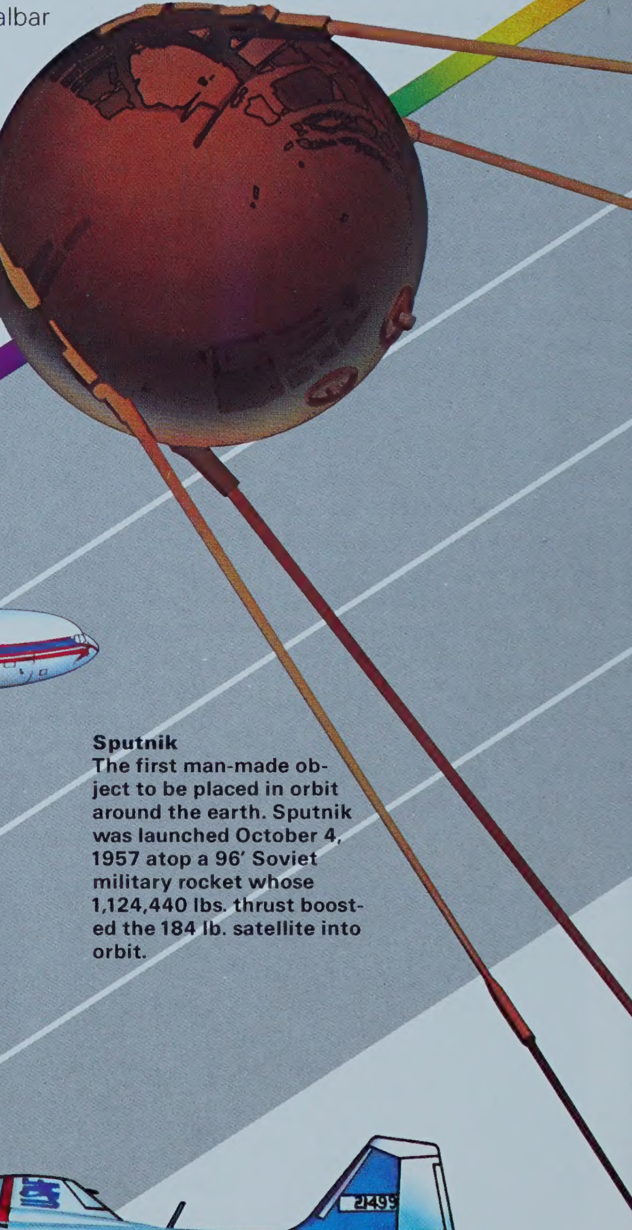
Walbar is also participating in Garrett's new turbofan engine, the ATF 3. The ATF 3 is a 5,440 lb. thrust engine which has been selected by the U.S. Coast Guard to power its HU-25A Surveillance Aircraft.

Since the 1950's, Walbar has supplied turbine blades for GE's J79 engine, which powers the McDonnell Douglas F-4 Phantom II. The high performance J79 turbojet is now being tested on an export version of the F-16 fighter aircraft and is expected to be a prime contender for the international fighter market.

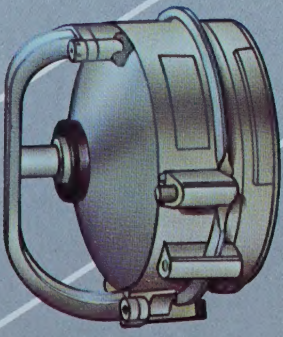
Walbar's turbine and

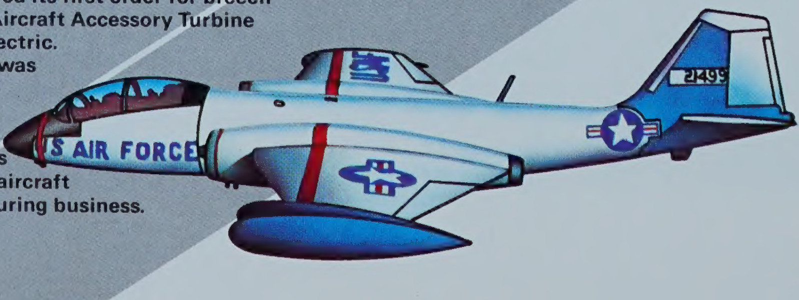


**Boeing 707**
**One of the most successful passenger aircraft of all time, the 707 made its first flight on July 15, 1954. This 4 engine jet was to become one of the pillars of commercial aviation during the 1960's.**



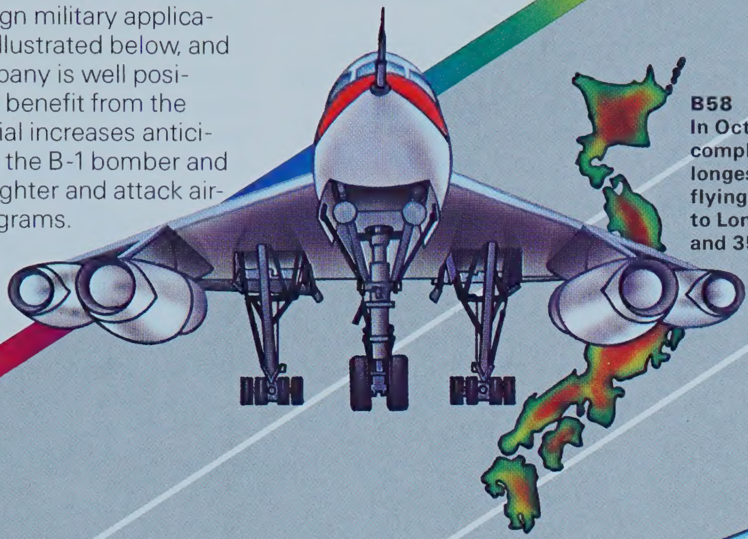
**Sputnik**
**The first man-made object to be placed in orbit around the earth. Sputnik was launched October 4, 1957 atop a 96' Soviet military rocket whose 1,124,440 lbs. thrust boosted the 184 lb. satellite into orbit.**



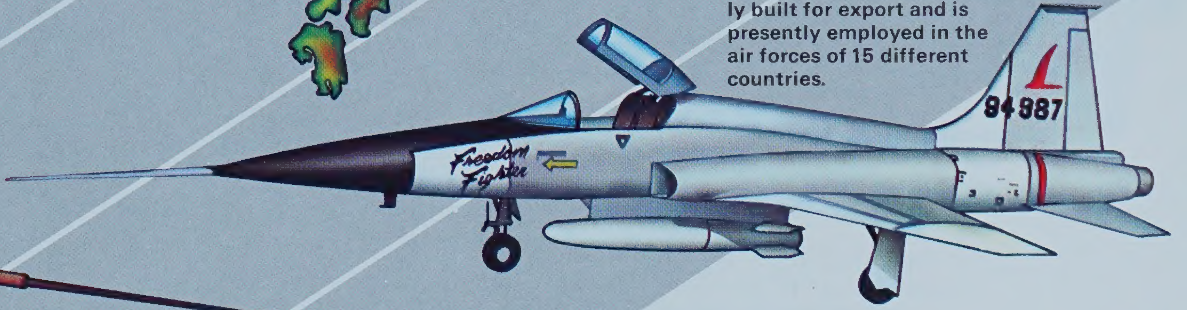


**Breech Starter-Canberra Bomber**
**In 1955, Walbar received its first order for breech assemblies from the Aircraft Accessory Turbine Division of General Electric. The breech assembly was a major component of the starter for the Canberra Bomber and provided Walbar's introduction into the aircraft component manufacturing business.**

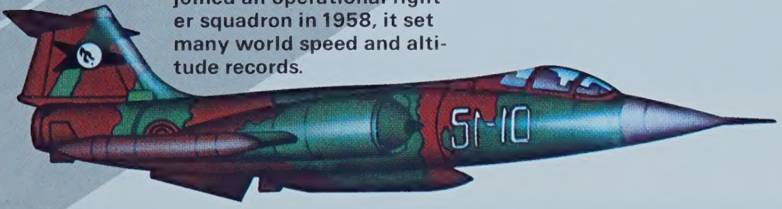
compressor components are employed on a host of U.S. and foreign military applications as illustrated below, and the Company is well positioned to benefit from the substantial increases anticipated on the B-1 bomber and certain fighter and attack aircraft programs.



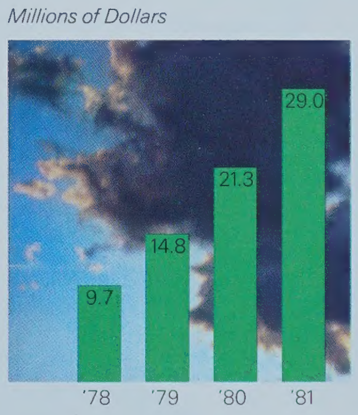
**B58**
**In October 1963, a B58 completed the world's longest supersonic flight, flying non-stop from Tokyo to London in eight hours and 35 minutes.**



**Northrop F-5 "Freedom Fighter"**
**Powered by GE's J85 engine, the F-5 was expressly built for export and is presently employed in the air forces of 15 different countries.**



**F-104 Starfighter**
**Powered by GE's J79 engine, the Starfighter was the first U.S. interceptor capable of speeds above Mach 2. When the F-104 joined an operational fighter squadron in 1958, it set many world speed and altitude records.**



| Engine Manufacturer | Engine Program | Representative Aircraft Applications |
|---|---|---|
| Motoren-und Turbinen-Union | RB199 | Panavia Tornado Fighter |
| General Electric Co. | J79 | McDonnell Douglas F-4 Phantom II<br>McDonnell Douglas F-16 Export (proposed) |
| | F404 | McDonnell Douglas F/A-18<br>Northrop F-5G Intermediate Fighter |
| | J85 | Northrop F-5 Fighter |
| | CF6-50 | McDonnell Douglas KC-10A Cargo Transport |
| | TF34 | Fairchild Republic A-10 Attack Aircraft |
| | F101 | USAF B-1 Bomber |
| | T64 | Sikorsky CH-53 Sea Stallion |
| Avco Lycoming | AGT 1500 | M-1 Main Battle Tank |
| Garrett Turbine Engine Company | ATF 3 | Coast Guard HU-25A Surveillance Aircraft |

# Commercial Aviation

As a result of the Air Controllers' strike, falling passenger levels and continued high fuel prices, many airlines curtailed their purchases of new commercial airliners in 1981. This was particularly true of wide-body jet sales where deliveries of 747's and DC-10's declined precipitously from 1980 levels and the L-1011 TriStar program was discontinued.

Despite the softness in the commercial aviation market, Walbar's shipments on commercial engines increased by 7 percent to $13.1 million. Our most significant commercial application continues to be on the General Electric CF6 family of engines which powered about half of the airplanes equipped with large high bypass engines delivered in 1981. The CF6 powers the wide bodied McDonnell Douglas DC-10 and Airbus A300 and is one of two engines being specified for the new Boeing 767 and Airbus A310. In addition, Walbar Metals continues to be the sole approved source for repairing CF6 low pressure turbine vanes.

Walbar also produced components for Garrett Turbine Engine Company's 660 and 700 auxiliary power units (APU's) which are used on the Boeing 747 and McDonnell Douglas DC-10.

Walbar is also supplying compressor airfoils for the GE/SNECMA CFM 56 program. The CFM 56 has been selected by many airlines to re-engine their DC-8's, which will result in a 15% fuel savings and a reduction in its noise "footprint" by 85%. During the year Walbar supplied Pratt & Whitney with second stage turbine blades for their JT9D engine and participated in Pratt & Whitney's JT3D and JT8D engine programs through Walbar Metals' airfoil replacement repair program.

The potential market for Boeing's new generation airliners, the short to medium range 757 and the long range 767, is estimated at 1000 planes each. The 757, which is powered by Pratt & Whitney's new fuel efficient PW2037, offers a 40% fuel savings per seat mile over present generation airliners. Although this engine will not be certified until at least 1983, Walbar will be supplying Pratt & Whitney with compressor discs as well as blades and vanes during this engine's development phase.

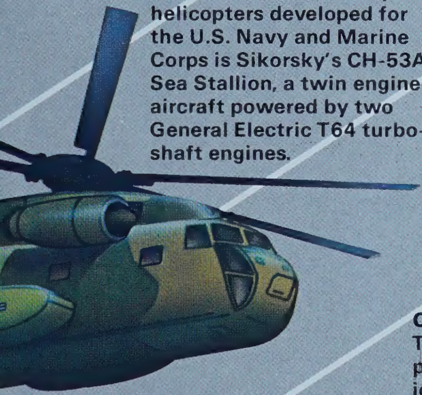
In April 1981, the first manned orbital flight of the Space Shuttle Columbia was successfully completed. Walbar of Canada machined the turbine blades for two high pressure turbine stages of the Shuttle's booster pumps, and we are extremely proud to have been represented on this historic flight.

**Boeing 747**
The first Jumbo jet in the world, this aircraft can carry 500 passengers over trans-oceanic routes. In 1970 the 747 entered service on the New York-London route and was soon followed by many more units used by all the world's major airlines.

**Falcon Jet 20**
This elegant twin-engine executive jet, which first flew in 1963, can carry between 8 and 10 passengers. Its CF 700 engine was the first small turbofan in the world to be certified by the FAA.

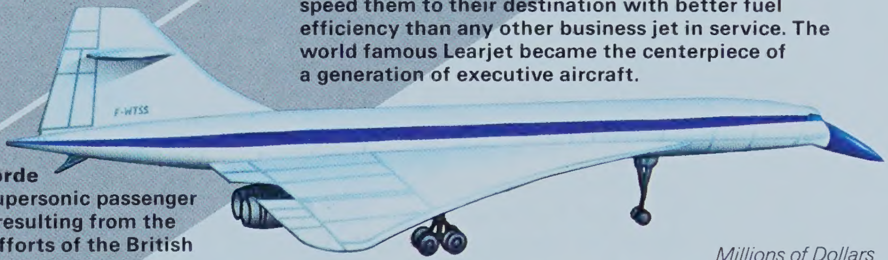
**Spruance Destroyer**
In 1970, the LM 2500 marine gas turbine was selected to power the U.S. Navy's Spruance Class destroyers, becoming the Navy's first gas turbine powered combat ship.

**William Lear**
One of the great innovators of the aerospace industry, Bill Lear invented and often manufactured impressive new technology. His creations include the first automatic direction finder and the now famous Learjet.

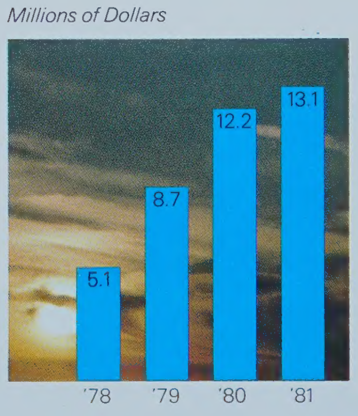


**Sea Stallion**
Illustrative of the heavy lift helicopters developed for the U.S. Navy and Marine Corps is Sikorsky's CH-53A Sea Stallion, a twin engine aircraft powered by two General Electric T64 turboshaft engines.

**Learjet**
Nearly a thousand corporations rely on the Learjet powered by Garrett Corporation's TFE 731 engines to speed them to their destination with better fuel efficiency than any other business jet in service. The world famous Learjet became the centerpiece of a generation of executive aircraft.



**Concorde**
This supersonic passenger plane resulting from the joint efforts of the British Aircraft Corporation and the French Aérospatiale flew for the first time on March 2, 1969. The Concorde can carry 144 passengers at supersonic speed and has a range of 4,000 miles.



| Engine Manufacturer | Engine Program | Representative Aircraft Applications |
|---|---|---|
| General Electric Co. | CF6 | McDonnell Douglas DC-10<br>Airbus Industrie A300 |
| | CF6-80 | Boeing 767, Airbus Industrie A310 |
| General Electric/SNECMA | CFM 56 | McDonnell Douglas DC-8 |
| Pratt & Whitney Aircraft | JT3D | Boeing 707 and DC-8 |
| | JT8D | Boeing 727, 737 and DC-9 |
| | JT9D | Boeing 747 and 767 |
| | PW2037 | Boeing 757 |
| Garrett Turbine Engine Company | 660 APU | Boeing 747 |
| | 700 APU | McDonnell Douglas DC-10 |
| Rocketdyne | Booster Pump | NASA Space Shuttle |

# General Aviation

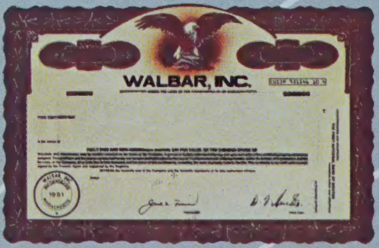
Over the past few years, General Aviation has provided the largest portion of Walbar's component revenues. Walbar's blades, vanes or discs are employed on most of the business jets and commuter planes presently in service. During 1981, Walbar's shipments for general aviation applications increased by 29 percent to $35.0 million and comprised about 43 percent of Walbar's overall business.

Our most significant applications continued to be for Garrett Turbine Engine Company's highly efficient TFE 731 turbofan engine which is used by seven corporate aircraft manufacturers on 18 models of the world's leading business jets, and Pratt & Whitney of Canada's PT6 turboprop/turboshaft engine which powers two-thirds of the turboprop-powered business and commuter aircraft. Since 1971 Garrett has delivered over 3300 of the 3500 - 3700 lb. thrust TFE 731 powerplants. Their latest version, the 731-5, which develops 4300 lb. thrust, is being evaluated by Gates Learjet, British Aerospace and Israel Aircraft Industries for future corporate aircraft programs and is expected to carry the 731 engine program all the way through the1980's.

Walbar's Toronto, Peabody and Indiantown facilities supply a number of turbine and compressor components for Pratt & Whitney's PT6 family of engines. These PT6 engines are used on the Beech King Air and Super King Air, Piper Cheyenne, Lear Avia's new 2100 Lear Fan and the de Havilland Dash 7 and Twin Otter, as well as various helicopters.

Pratt & Whitney of Canada is developing a new, fuel efficient turboprop engine, the PT7A-1, for the commuter aircraft market, which incorporates the latest advanced technology. This engine has already been selected to power the Embraer EMB-120, a 30 passenger twin-engine commuter aircraft, presently under development in Brazil. Another version of this engine, the PT7A-2R, has been selected by de Havilland Aircraft of Canada, Ltd. to power its new Dash 8 twin-engine airliner. The market potential for the PT7 is estimated to be 2500 engines over the next ten years, with a peak production of over 20 per month. Walbar is presently producing several stages of compressor discs for this new program.

**Walbar's Public Offering**
**In August 1979, Walbar completed a highly successful public offering of 700,000 shares of common stock managed by the investment banking firm of E. F. Hutton & Co. The company's shares were subsequently listed in September of that year on the American Stock Exchange.**

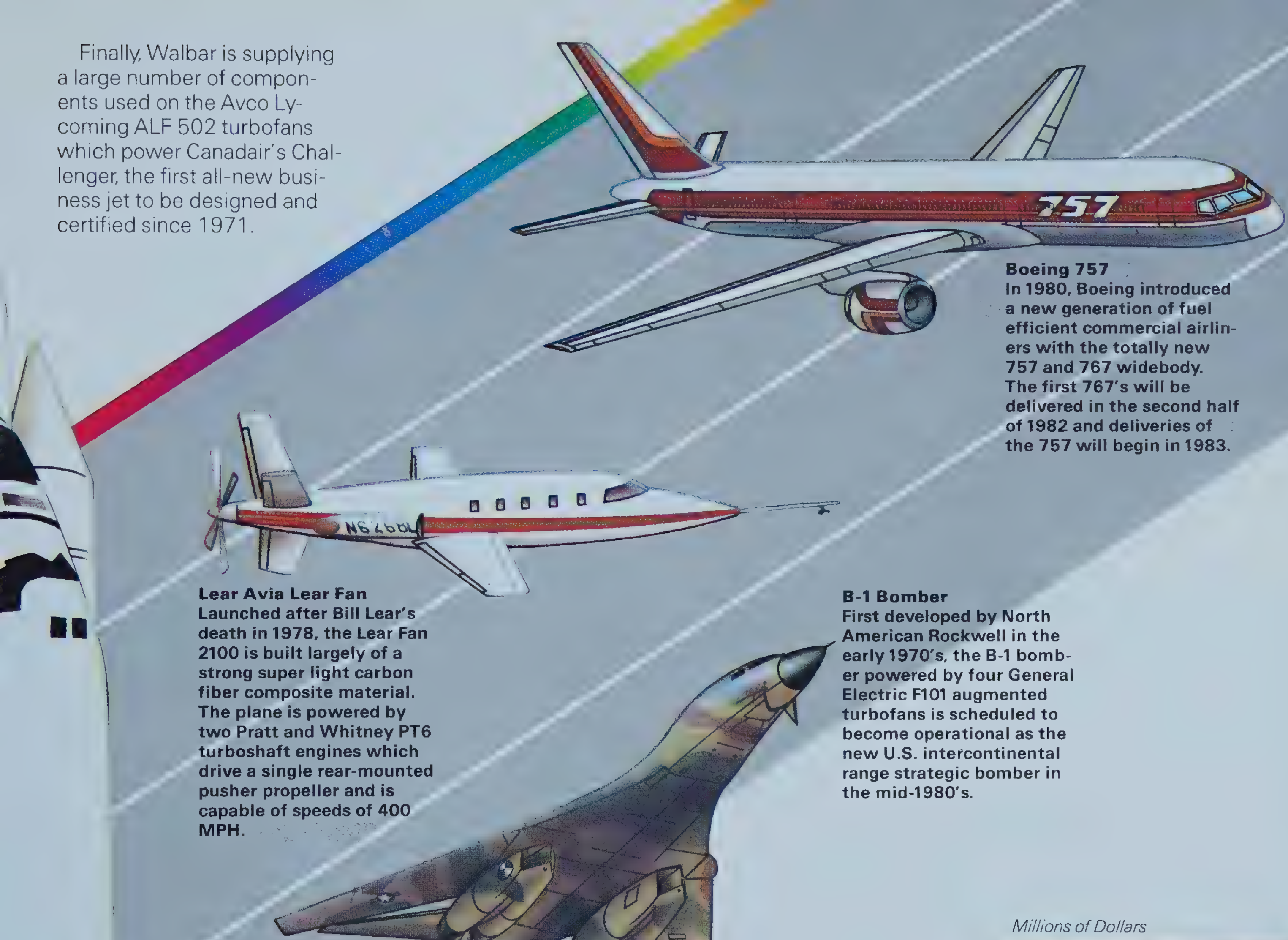
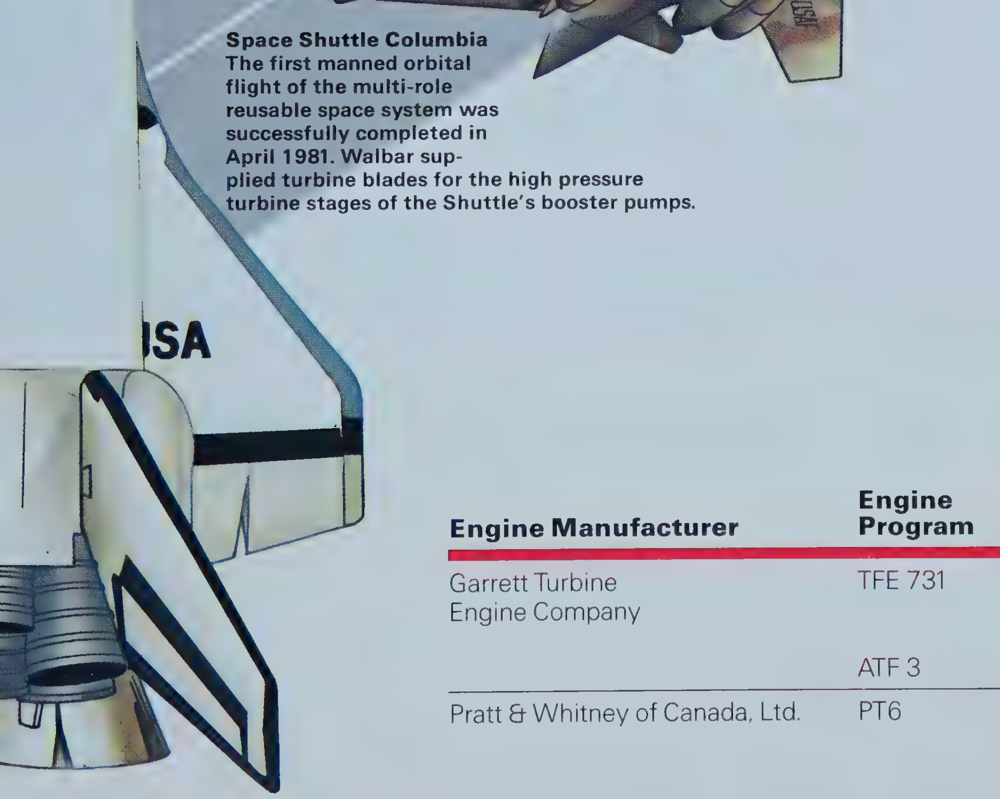


WALBAR, INC.

**M1 Tank**
**Another exciting application of a gas turbine engine to a land based operation is the use of Avco Lycoming's AGT 1500 gas turbine to power the U.S. Army's first turbine powered tank.**

**Airbus**
**A large capacity aircraft built for short and medium distances, the Airbus, manufactured by a Paris-based European consortium, made its first flight in 1972 and entered service in 1973. Although already well received in the international market, Airbus achieved a major breakthrough in 1977 when Eastern selected the A300 for its shuttle service between Boston and New York.**

Finally, Walbar is supplying a large number of components used on the Avco Lycoming ALF 502 turbofans which power Canadair's Challenger, the first all-new business jet to be designed and certified since 1971.

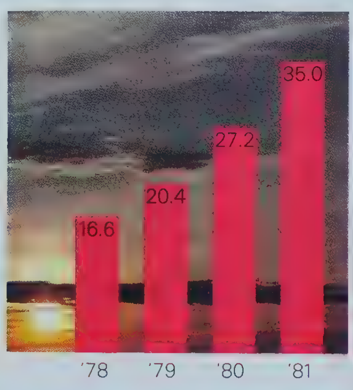
**Boeing 757**
In 1980, Boeing introduced a new generation of fuel efficient commercial airliners with the totally new 757 and 767 widebody. The first 767's will be delivered in the second half of 1982 and deliveries of the 757 will begin in 1983.

**Lear Avia Lear Fan**
Launched after Bill Lear's death in 1978, the Lear Fan 2100 is built largely of a strong super light carbon fiber composite material. The plane is powered by two Pratt and Whitney PT6 turboshaft engines which drive a single rear-mounted pusher propeller and is capable of speeds of 400 MPH.

**B-1 Bomber**
First developed by North American Rockwell in the early 1970's, the B-1 bomber powered by four General Electric F101 augmented turbofans is scheduled to become operational as the new U.S. intercontinental range strategic bomber in the mid-1980's.

**Space Shuttle Columbia**
The first manned orbital flight of the multi-role reusable space system was successfully completed in April 1981. Walbar supplied turbine blades for the high pressure turbine stages of the Shuttle's booster pumps.

*Millions of Dollars*



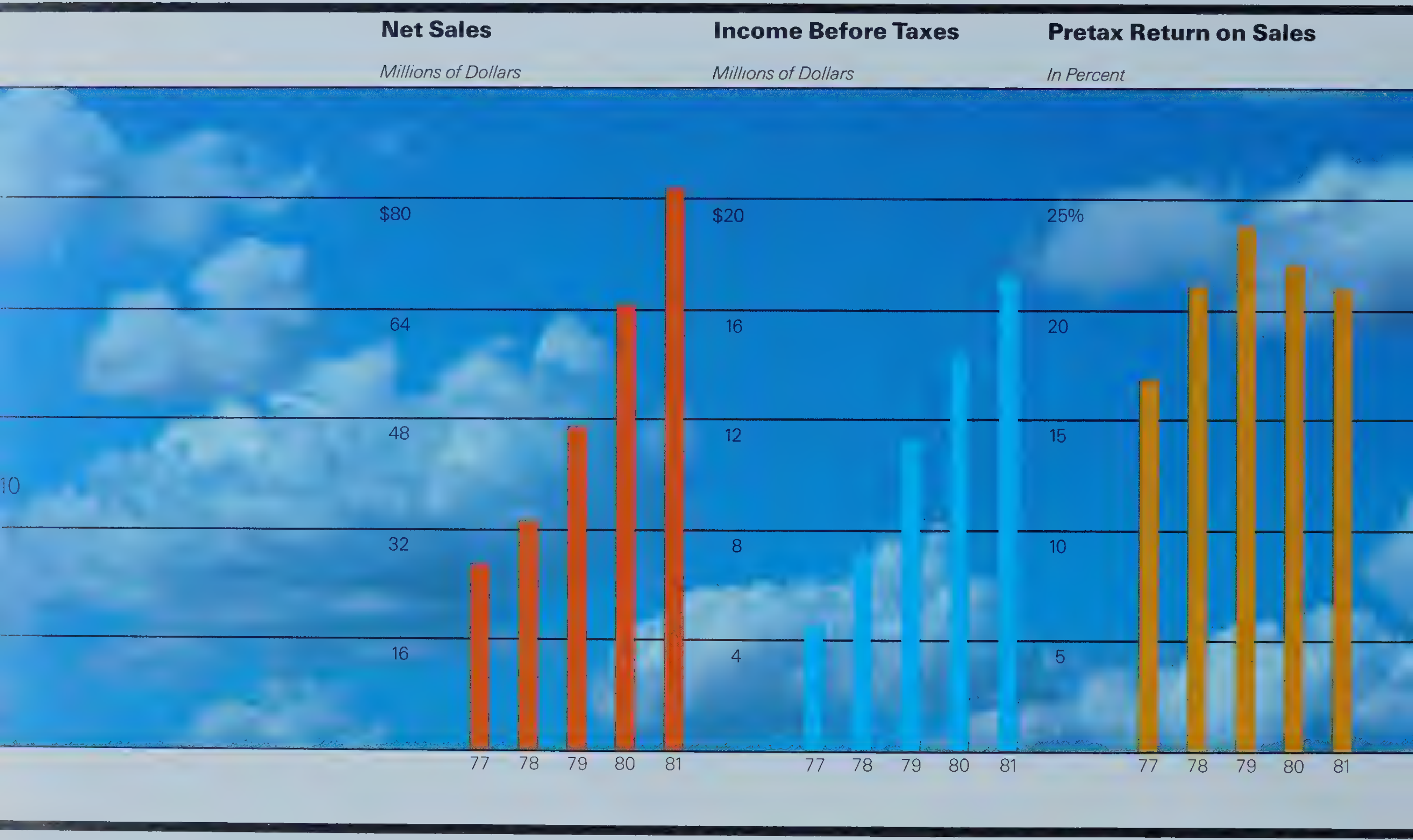
| Engine Manufacturer | Engine Program | Representative Aircraft Applications |
|---|---|---|
| Garrett Turbine Engine Company | TFE 731 | Gates Learjet<br>Cessna Citation III<br>Rockwell 65 Sabreliner |
| | ATF 3 | Falcon 20G |
| Pratt & Whitney of Canada, Ltd. | PT6 | Beech King Air and Super King Air<br>Piper Cheyenne<br>de Havilland Dash 7 and Twin Otter<br>Lear Avia 2100 Lear Fan |
| | PT7 | de Havilland Dash 8<br>Embraer EMB-120 |
| | JT15D | Cessna Citation I and II<br>Mitsubishi Diamond I |
| Avco Lycoming | ALF 502 | Canadair Challenger |

# Financial Review

1981 was a year of substantial growth for your Company. New records were set for both revenues and net income, increasing 26% and 20% respectively. Earnings per share also increased 20% while your Company paid out 30% more in cash dividends during the year. Additionally, the Company's return on average assets exceeded 17% while return on average equity approached 30% during 1981.

More impressively, your Company has sustained a substantial growth record over the long term. Specifically, over the last five years, the Company's sales have increased more than threefold from $27.2 million to $81.8 million, at a compound annual growth rate of nearly 32%. Net income, moreover, has increased from $2.4 million in 1977 to $9.4 million this year, for a compound annual growth rate of over 41%.

Walbar, Inc.'s balance sheet continues to reflect a strong



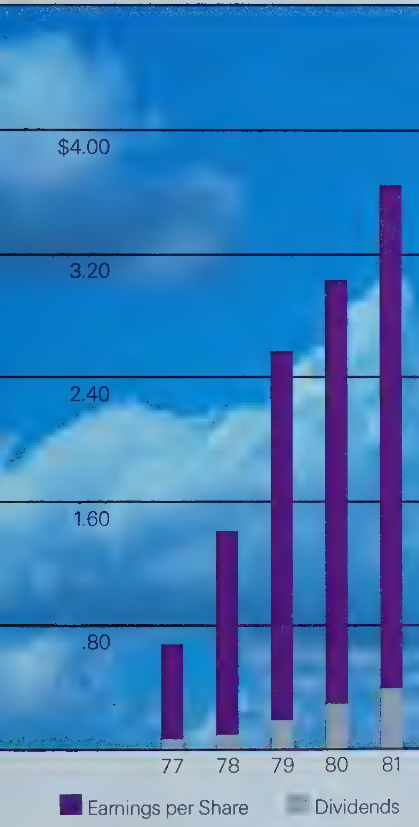
financial position and excellent liquidity. On December 31, 1981, current assets exceeded current liabilities by nearly $19.5 million. During a period of extremely high, fluctuating interest rates, your Company enjoyed the enviable position of having no long term debt tied to the prime rate. At year end, long term debt was less than 1 percent of our total capitalization (long term debt plus equity).

The Company's financial resources are stronger than ever before as we face the economic uncertainties of the coming year. We believe we are well equipped to meet the needs of our customers for components for new and growth versions of their turbofan and turboprop engine model lines.

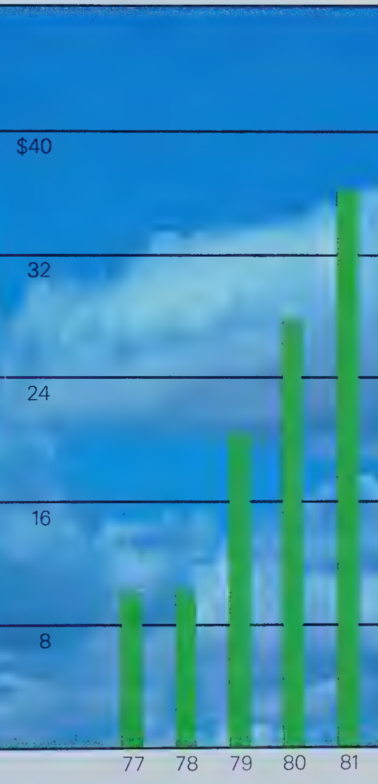
Jack M. Fischer

Jack M. Fischer
*Treasurer and*
*Chief Financial Officer*

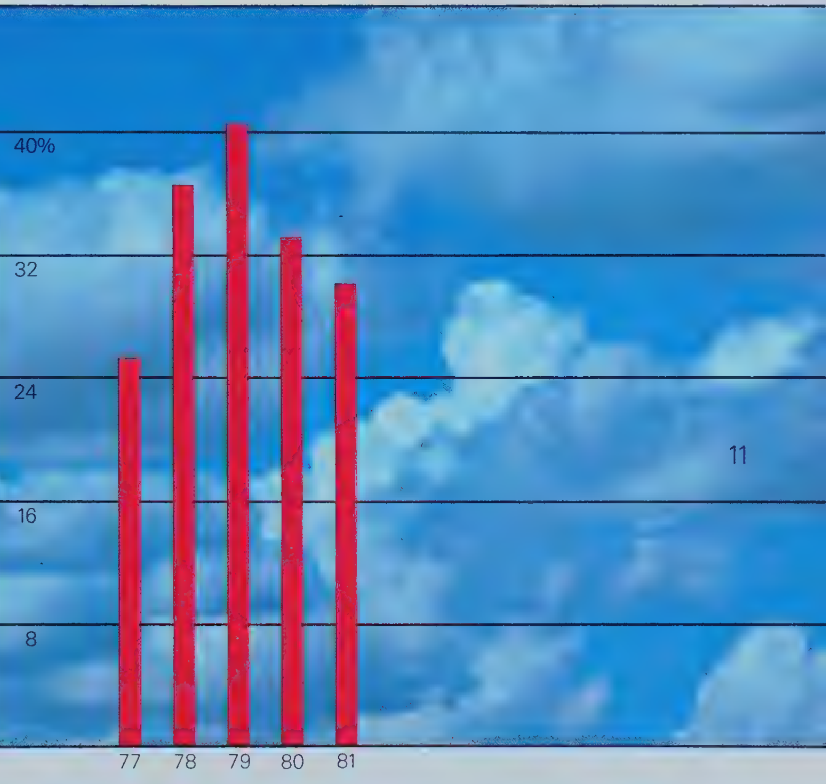
**Earnings Per Share and Dividends**
*In Dollars*



**Stockholders' Equity**
*Millions of Dollars*



**Return on Average Equity**
*In Percent*



Walbar, Inc. and Subsidiaries

# Consolidated Statements of Income

For each of the Three Years ended December 31, 1981

| | **1981** | 1980 | 1979 |
|---|---|---|---|
| **Net Sales** | **$81,809,434** | $64,838,641 | $47,116,732 |
| **Costs and Expenses** (Note 4): | | | |
| Cost of sales | **$60,606,381** | $47,311,869 | $33,098,605 |
| Selling, general and administrative expenses | **3,453,066** | 2,995,540 | 2,470,092 |
| | **$64,059,447** | $50,307,409 | $35,568,697 |
| Income from operations | **$17,749,987** | $14,531,232 | $11,548,035 |
| **Interest Expense,** net of interest income | **(475,240)** | (158,532) | (243,953) |
| Income before income taxes | **$17,274,747** | $14,372,700 | $11,304,082 |
| **Provision for Income Taxes** (Notes 1 and 5) | **7,834,000** | 6,530,000 | 5,180,000 |
| Net income | **$ 9,440,747** | $ 7,842,700 | $ 6,124,082 |
| **Net Income Per Share** (Note 1) | **$3.63** | $3.02 | $2.56 |

# Consolidated Statements of Stockholders' Investment

For Each of the Three Years ended December 31, 1981

| | Common Stock | | Capital in Excess of Par Value | Retained Earnings |
|---|---|---|---|---|
| | Shares | Amount | | |
| **Balance December 31, 1978** | 2,250,000 | $22,500 | $ 109,500 | $10,045,496 |
| Net income | — | — | — | 6,124,082 |
| Proceeds from common stock offering, net of expenses of $303,096 | 350,000 | 3,500 | 4,537,404 | — |
| Dividends, $.18 per share | — | — | — | (440,000) |
| **Balance December 31, 1979** | 2,600,000 | $26,000 | $4,646,904 | $15,729,578 |
| Net income | — | — | — | 7,842,700 |
| Dividends, $.30 per share | — | — | — | (780,000) |
| **Balance December 31, 1980** | 2,600,000 | $26,000 | $4,646,904 | $22,792,278 |
| Net income | — | — | — | 9,440,747 |
| Dividends, $.39 per share | — | — | — | (1,014,000) |
| **Balance December 31, 1981** | **2,600,000** | **$26,000** | **$4,646,904** | **$31,219,025** |

*The accompanying notes are an integral part of these financial statements.*

Walbar, Inc. and Subsidiaries

# Consolidated Balance Sheets

December 31, 1981 and 1980

| ***Assets*** | **1981** | 1980 |
|---|---|---|
| **Current Assets:** | | |
| Cash | **$ 547,833** | $ 896,342 |
| Short-term investments | **902,422** | 1,100,418 |
| Accounts receivable | **13,767,791** | 11,657,637 |
| Inventories (Note 4) | **24,183,354** | 20,239,014 |
| Prepaid expenses | **523,227** | 396,308 |
| Total current assets | **$39,924,627** | $34,289,719 |
| **Property and Equipment,** at cost (Notes 1 and 2): | | |
| Land | **$ 723,712** | $ 425,697 |
| Buildings and improvements | **6,524,821** | 5,493,251 |
| Machinery and equipment | **23,383,370** | 18,000,638 |
| Machinery and equipment owned by the Government of Canada, net of Government contribution to cost | **395,241** | 977,268 |
| | **$31,027,144** | $24,896,854 |
| Less-Accumulated depreciation | **10,732,525** | 9,212,956 |
| | **$20,294,619** | $15,683,898 |
| **Cash Surrender Value of Life Insurance** (face amount of $175,000 at December 31, 1981) | **$ 72,998** | $ 164,475 |
| | **$60,292,244** | $50,138,092 |

| ***Liabilities and Stockholders' Investment*** | | |
|---|---|---|
| **Current Liabilities:** | | |
| Loans payable (Note 3) | **$ 4,055,679** | $ 3,400,739 |
| Current maturities of long-term debt (Note 2) | **644,498** | 831,740 |
| Accounts payable | **6,383,336** | 8,147,151 |
| Customer deposits | **6,310,040** | 2,994,850 |
| Accrued income taxes (Notes 1 and 5) | **1,203,901** | 2,740,021 |
| Accrued expenses | **1,830,513** | 1,403,012 |
| Total current liabilities | **$20,427,967** | $19,517,513 |
| **Deferred Income Taxes** (Notes 1 and 5) | **$ 3,715,953** | $ 2,256,315 |
| **Long-Term Debt,** excluding current maturities (Note 2) | **$ 256,395** | $ 899,082 |
| **Contingency** (Note 8) | | |
| **Stockholders' Investment:** | | |
| Preferred stock, $1 par value-<br>Authorized—1,000,000 shares<br>Issued—none | **$ —** | $ — |
| Common stock, $.01 par value-<br>Authorized—6,000,000 shares<br>Issued—2,600,000 shares in 1981 and 1980 | **26,000** | 26,000 |
| Capital in excess of par value | **4,646,904** | 4,646,904 |
| Retained earnings | **31,219,025** | 22,792,278 |
| Total stockholders' investment | **$35,891,929** | $27,465,182 |
| | **$60,292,244** | $50,138,092 |

*The accompanying notes are an integral part of these financial statements.*

Walbar, Inc. and Subsidiaries

# *Consolidated Statements of Changes in Financial Position*

For Each of the Three Years ended December 31, 1981

| | **1981** | 1980 | 1979 |
|---|---|---|---|
| **Working Capital Was Provided by:** | | | |
| Operations– | | | |
| Net income | **$ 9,440,747** | $ 7,842,700 | $ 6,124,082 |
| Items not affecting working capital– | | | |
| Depreciation | **1,707,501** | 1,316,261 | 932,284 |
| Deferred income taxes | **1,312,000** | 1,069,000 | 447,000 |
| Provided by operations | **$12,460,248** | $10,227,961 | $ 7,503,366 |
| Net proceeds from common stock offering | **—** | — | 4,540,904 |
| Additions to long-term debt | **—** | 294,744 | 100,069 |
| Sales of property and equipment | **110,396** | 47,366 | 8,949 |
| Other, net | **239,115** | 11,354 | (35,690) |
| Total working capital provided | **$12,809,759** | $10,581,425 | $12,117,598 |
| **Working Capital Was Expended for:** | | | |
| Additions to property and equipment | **$ 6,428,618** | $ 7,044,333 | $ 3,452,042 |
| Payments and current maturities of long-term debt | **642,687** | 831,741 | 1,821,716 |
| Dividends | **1,014,000** | 780,000 | 440,000 |
| Total working capital expended | **$ 8,085,305** | $ 8,656,074 | $ 5,713,758 |
| Increase in working capital | **$ 4,724,454** | $ 1,925,351 | $ 6,403,840 |
| **Working Capital Beginning of Year** | **14,772,206** | 12,846,855 | 6,443,015 |
| **Working Capital End of Year** | **$19,496,660** | $14,772,206 | $12,846,855 |

| | **1981** | 1980 | 1979 |
|---|---|---|---|
| **Increase (Decrease) in Working Capital:** | | | |
| Cash | **$ (348,509)** | $ (39,295) | $ 60,932 |
| Short-term investments | **(197,996)** | (942,041) | 796,276 |
| Accounts receivable | **2,110,154** | 4,164,205 | 2,106,403 |
| Inventories | **3,944,340** | 8,909,750 | 5,551,157 |
| Loans payable | **(654,940)** | (2,522,109) | (578,630) |
| Current maturities of long-term debt | **187,242** | 114,964 | 480,758 |
| Accounts payable and deposits | **(1,551,375)** | (6,465,946) | (1,504,250) |
| Accrued income taxes | **1,536,120** | (928,300) | (488,002) |
| Other, net | **(300,582)** | (365,877) | (20,804) |
| Increase in working capital | **$ 4,724,454** | $ 1,925,351 | $ 6,403,840 |

*The accompanying notes are an integral part of these financial statements.*

Walbar, Inc. and Subsidiaries

# Notes to Consolidated Financial Statements

December 31, 1981, 1980 and 1979

## (1) Significant Accounting Policies

Significant accounting policies followed by the Company in preparing its consolidated financial statements are set forth below.

*Principles of Consolidation*
The consolidated financial statements include the accounts of Walbar, Inc. and its domestic and Canadian subsidiaries. All material intercompany balances and transactions have been eliminated.

*Foreign Currency Translation*
The balance sheet accounts of the Company's Canadian subsidiary are translated using yearend exchange rates, except for inventories and property and equipment which are translated at historical rates in effect at the time the assets were purchased in accordance with the provisions of Statement of Financial Accounting Standards No. 8. Revenues and expenses are translated at average rates for the year, except for depreciation which is translated at historical rates. Gains and losses resulting from the translation of foreign financial statements are recognized currently and have had an immaterial effect on income from operations.

*Property and Equipment*
Property and equipment are stated at cost. Ordinary repairs and maintenance are expensed as incurred.

Machinery and equipment purchased by the Company's Canadian subsidiary under a capital assistance program in the original amount of $5,075,170 is stated at the net cost to the Company. Under a former program, the Canadian government provided a grant equal to approximately one-half of the original cost of machinery and equipment purchases and provided long-term financing over five years for the balance. Title for this equipment remains with the Canadian government until the final payment has been made. During 1980, the program was revised so that the Canadian government no longer provides long-term financing and, accordingly, the Company has title to equipment acquired under the revised program. The Company records depreciation on its net cost.

Depreciation for financial reporting purposes is recorded using the straight-line method based on the estimated useful lives of the respective assets, which are as follows:

| | |
|---|---|
| Buildings and improvements | 30-45 Years |
| Machinery and equipment | 8-12 Years |

*Accounting for Income Taxes*
Income taxes are provided in accordance with the comprehensive income tax allocation method which recognizes the tax effects of all income and expense transactions included in each year's statement of income regardless of the year the transactions are reported for tax purposes. The principal timing differences are due to the use of accelerated depreciation methods and shorter depreciable lives for tax purposes and the deferral of certain export (DISC) income for tax purposes.

The parent and its domestic subsidiaries file a consolidated U.S. Federal income tax return. Investment tax credits are recorded as a reduction of the provision for income taxes using the flow-through method. U.S. income taxes have not been provided on the unremitted earnings of the Company's Canadian subsidiary as the Company intends to permanently invest these unremitted earnings.

*Net Income per Share*
Net income per share is computed using the weighted average number of shares of common stock outstanding during each period, which amounted to 2,600,000 in 1980 and 1981 and 2,390,959 in 1979.

## (2) Long-Term Debt

At December 31, 1981 and 1980, long-term debt consisted of the following:

| | 1981 | 1980 |
|---|---|---|
| 8¾ to 9½% Mortgage notes due through 1985 | $203,198 | $ 465,627 |
| Notes payable to Government of Canada (non-interest bearing) due through 1984 (Note 1) | 302,695 | 475,195 |
| 8% Promissory note due former stockholder, payable in annual installments of $395,000 through June 1982 | 395,000 | 790,000 |
| | $900,893 | $1,730,822 |
| Less-Current portion | 644,498 | 831,740 |
| | $256,395 | $ 899,082 |

Long-term debt outstanding at December 31, 1981 is scheduled to mature as follows:

| For Years Ending December 31, | |
|---|---|
| 1982 | $644,498 |
| 1983 | 122,968 |
| 1984 | 120,742 |
| 1985 | 12,685 |
| | $900,893 |

## (3) Loans Payable

At December 31, 1981, the Company had available unsecured lines of credit amounting to $15,000,000 of which $4,055,679 was outstanding. Interest is charged on borrowings under the lines of credit at rates ranging from the prime rate in the United States to ¼% above the prime rate in Canada. The prime interest rate at December 31, 1981 was 15.75% in the United States and 17.25% in Canada. There are no compensating balance arrangements in connection with the lines of credit with the banks.

## (4) Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and include material, labor and factory overhead. Substantially all raw materials are assigned to job orders as received and are accounted for as work in process. At December 31, 1981 and 1980, there were no significant amounts of finished goods on hand.

Certain inventories of the Company's Canadian subsidiary are pledged to secure customer deposits.

## (5) Income Taxes

Income before income taxes for each of the years ended December 31, 1981, 1980 and 1979 for the Company's domestic and foreign operations were as follows:

| | Domestic | Foreign | Total |
|---|---|---|---|
| 1981 | $9,928,244 | $7,346,503 | $17,274,747 |
| 1980 | $9,099,892 | $5,272,808 | $14,372,700 |
| 1979 | $7,373,163 | $3,930,919 | $11,304,082 |

The provision for income taxes consists of the following components:

**1981**

| | U.S. Federal | Foreign | State | Total |
|---|---|---|---|---|
| Current | $3,211,000 | $2,714,000 | $597,000 | $6,522,000 |
| Deferred | 629,000 | 627,000 | 56,000 | 1,312,000 |
| | $3,840,000 | $3,341,000 | $653,000 | $7,834,000 |

**1980**

| | U.S. Federal | Foreign | State | Total |
|---|---|---|---|---|
| Current | $3,279,000 | $1,503,000 | $679,000 | $5,461,000 |
| Deferred | 316,000 | 753,000 | — | 1,069,000 |
| | $3,595,000 | $2,256,000 | $679,000 | $6,530,000 |

**1979**

| | U.S. Federal | Foreign | State | Total |
|---|---|---|---|---|
| Current | $2,806,000 | $1,372,000 | $555,000 | $4,733,000 |
| Deferred | 217,000 | 230,000 | — | 447,000 |
| | $3,023,000 | $1,602,000 | $555,000 | $5,180,000 |

The table below reconciles the statutory U.S. Federal income tax rate to the effective income tax rate:

| | 1981 | 1980 | 1979 |
|---|---|---|---|
| Statutory tax rate | 46% | 46% | 46% |
| State income taxes, net of Federal benefit | 2 | 2 | 3 |
| Lower tax rate on Canadian subsidiary's income | — | (1) | (1) |
| Investment tax credits | (3) | (2) | (2) |
| Effective tax rate | 45% | 45% | 46% |

## (6) Pension and Savings Plans

*Pension Plans*

The Company maintains noncontributory pension plans covering substantially all of its employees. Costs under the plans are funded annually as accrued, in accordance with accepted actuarial determinations. The total pension expense was approximately $367,000 in 1981, $214,000 in 1980, and $251,000 in 1979. Accumulated plan benefits and plan net assets for the Company's domestic defined benefit plan, as of the June 30, 1981 and 1980 actuarial valuation, are as follows:

| | 1981 | 1980 |
|---|---|---|
| Actuarially computed present value of accumulated plan benefits: | | |
| Vested | $ 799,837 | $674,744 |
| Nonvested | 278,261 | 195,276 |
| | $1,078,098 | $870,020 |
| Net assets available for benefits | $1,066,528 | $933,673 |

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6% for both years.

The Company's Canadian subsidiary maintains a separate pension plan. The plan is not required to report, and does not otherwise determine, the actuarial value of accumulated nonvested benefits. At June 30, 1981 and 1980, the plan assets exceeded the actuarially computed value of vested benefits.

*Savings Plans*

During 1980, the Company established contributory savings plans for its employees. Each year the Company will contribute from 50% to 100% of each participant's basic contribution up to 6% of their total compensation. The Company's contributions were $395,691 in 1981 and $135,981 in 1980.

In connection with the savings plans, the Company has reserved 50,000 shares of its common stock. These shares may be issued by the Company in lieu of cash contributions.

## (7) Segment Information

The Company is primarily involved in one industry segment, namely, the manufacture and repair of components for turbine engines. Sales to the Company's principal customers, which exceeded 10% of consolidated sales during each of the last three years, were as follows (in thousands):

| 1981 | | 1980 | | 1979 | |
|---|---|---|---|---|---|
| $ | % | $ | % | $ | % |
| $24,130 | 30% | $19,369 | 30% | $15,205 | 32% |
| 20,625 | 25 | 17,107 | 26 | 13,640 | 29 |
| 17,619 | 22 | 13,994 | 22 | 9,845 | 21 |
| 10,207 | 12 | 7,608 | 12 | — | — |
| $72,581 | 89% | $58,078 | 90% | $38,690 | 82% |

Export sales of domestic companies amounted to $7,486,000 in 1981, $5,821,000 in 1980 and $4,547,000 in 1979, principally to customers located in Canada. The following is a summary of certain financial data by geographic area (in thousands):

**1981**

| | United States | Canada | Eliminations | Total |
|---|---|---|---|---|
| Sales to unaffiliated customers | $38,870 | $42,939 | $ — | $81,809 |
| Transfers between geographic areas | 1,425 | 181 | (1,606) | — |
| Net Sales | $40,295 | $43,120 | $ (1,606) | $81,809 |
| Income from operations | $ 9,908 | $ 7,842 | $ — | $17,750 |
| Net identifiable assets at yearend | $28,570 | $31,722 | $ — | $60,292 |

**1980**

| | United States | Canada | Eliminations | Total |
|---|---|---|---|---|
| Sales to unaffiliated customers | $36,265 | $28,574 | $ — | $64,839 |
| Transfers between geographic areas | 583 | 157 | (740) | — |
| Net Sales | $36,848 | $28,731 | $ (740) | $64,839 |
| Income from operations | $ 9,102 | $ 5,429 | $ — | $14,531 |
| Net identifiable assets at yearend | $24,911 | $25,227 | $ — | $50,138 |

**1979**

| | United States | Canada | Eliminations | Total |
|---|---|---|---|---|
| Sales to unaffiliated customers | $27,954 | $19,163 | $ — | $47,117 |
| Transfers between geographic areas | 350 | 195 | (545) | — |
| Net Sales | $28,304 | $19,358 | $ (545) | $47,117 |
| Income from operations | $ 7,558 | $ 3,990 | $ — | $11,548 |
| Net identifiable assets at yearend | $19,210 | $13,387 | $ (8) | $32,589 |

### (8) Contingency

TRW, Inc., a competitor of the Company, initiated a lawsuit against the Company's Canadian subsidiary in the Federal Court of Canada in June 1981. The suit alleges that certain aspects of the Canadian subsidiary's ECM operation infringe on certain patent rights asserted by TRW and seeks injunctive relief as well as damages or an accounting of profits. TRW had offered to license these patent rights to the Company, but the Company has declined to accept a license from TRW, although it had been discussing resolution of this matter with TRW. Special patent counsel has advised the Company that, in his opinion, the Company's ECM operation does not infringe any valid patent rights asserted by TRW. The Company intends vigorously to defend against this lawsuit. Based on such opinion of counsel, it is the opinion of the Company's management that the lawsuit will not materially adversely affect its financial position or its results of operations.

## Report of Independent Public Accountants

To the Board of Directors and Stockholders of Walbar, Inc.:

We have examined the consolidated balance sheets of WALBAR, INC. (a Massachusetts corporation) and subsidiaries as of December 31, 1981 and 1980, and the related consolidated statements of income, stockholders' investment and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Walbar, Inc. and subsidiaries as of December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Boston, Massachusetts,
March 1, 1982

# *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

**General.** During the five years ended December 31, 1981, Walbar's revenues and net income grew at annual compounded rates of 32% and 41%, respectively. Total assets increased from $18.0 million at the end of 1977 to $60.3 million at December 31, 1981 while stockholders' equity increased from $10.0 million to $35.9 million over the same period. This growth can be attributed primarily to expanding internal operations resulting from a strengthened demand in the Company's three principal markets, commercial, military and general aviation, which has created an increased demand for the Company's products. In recent years the Company has financed substantially all of its capital expenditures from operations and has borrowed moderately to obtain cash needed for working capital. The principal capital expenditures have been for plant expansion, electrochemical machining ("ECM") and related equipment, and for tape controlled lathes and machining centers. These expenditures totalled $6.4, $7.0 and $3.5 million in 1981, 1980 and 1979, respectively. In 1979, $4.5 million in additional funding was supplied from the initial public offering, by the Company, of 350,000 shares of common stock.

**Liquidity and Capital Resources.** Long-term debt as a percentage of equity was 7% at December 31, 1979 compared to 3% in 1980 and less than 1% in 1981. The continued reduction in debt to equity ratios at year end 1980 and 1981 reflects the prepayment of the Company's term loan in August 1979 from the proceeds of its public offering and scheduled repayments on its remaining obligations during 1980 and 1981 coupled with the $4.5 million increase in equity as a result of the Company's public offering.

As of December 31, 1981, the Company and its subsidiaries had $4.1 million outstanding under lines of credit and overdraft facilities and approximately $10.9 million available for additional borrowings under these facilities. During 1981, the Company arranged an increase of $5 million in its overall lines of credit. In 1981, the Company's inventories increased by $3.9 million, primarily as a result of customer requirements to purchase titanium bar stock used in its ECM operation, in advance of normal requirements. These purchases have been partially offset by customer deposits for this material which increased during 1981 by $3.3 million. The Company believes its resources are adequate to meet the current year's $7 million capital expenditure budget as well as the liquidity needs of the Company.

### *Results of Operations*

**1981 Compared to 1980.** During 1981, net sales increased $16,970,793 (26.2%) from $64,838,641 in 1980 to $81,809,434 due to a strengthened demand in two of the Company's primary markets, military and general aviation, which resulted in increased requirements for the components manufactured by the Company. Most of the increase was the result of higher unit shipments, as price increases over the course of the year were generally within a range of 7 to 14%.

Cost of sales represented 74.1% of net sales during 1981 compared to 73.0% of net sales during 1980. The reduced gross margin resulted primarily from continued high costs at the Company's recently established facility in Indiantown, Florida and the reduction in component overhaul and repair work at Walbar Metals resulting from the slowdown in commercial aviation during the latter half of the year.

Selling, general and administrative expense increased by $457,526 but declined as a percentage of sales from 4.6% in 1980 to 4.2% in 1981. The increase resulted from increases in executive and administrative salaries, increased contributions to employer savings plans (which were only in effect for the latter half of 1980 compared to the full year of 1981) and higher professional fees.

Net interest expense increased substantially in 1981, by $316,708, due to higher Canadian bank borrowings in 1981 required to finance the Company's increased accounts receivables and inventories. Interest income derived from the investment of surplus funds in certificates of deposit and commercial paper, at the high interest rates prevailing during nearly all of 1980, also served to reduce that year's net interest expense.

Income before income taxes and net income in 1981 increased by 20.2% and 20.4% respectively from 1980. Net income per share also rose 20.2% to $3.63 in 1981 versus $3.02 per share in 1980. There were 2,600,000 shares outstanding in each period.

**1980 Compared to 1979.** During 1980, net sales increased $17,721,909 (37.6%) from $47,116,732 in 1979 to $64,838,641 due to a strengthened demand in the Company's three primary markets, commercial, military and general aviation, that resulted in increased requirements for the components manufactured by the Company. Most of the increase was the result of higher unit shipments, as price increases over the course of the year were generally within a range of 6 to 12%.

Cost of sales represented 73.0% of net sales during 1980 compared to 70.2% of net sales during 1979. The reduced gross margin resulted primarily from start-up costs associated with recently acquired facilities in Indiantown, Florida and Peabody, Massachusetts and the expansion of the Company's ECM facility in Toronto, Canada.

Selling, general and administrative expense increased by $525,448 but declined as a percentage of sales from 5.2% in 1979 to 4.6% in 1980. The increase resulted from increases in executive and administrative salaries, employer savings plan contributions which began in 1980 and higher professional fees.

Net interest expense declined slightly in 1980, by $85,421, due to lower domestic bank borrowings in 1980, resulting from the prepayment of $750,000 of the Company's term loan borrowings and the repayment of $800,000 in short term borrowings on August 14, 1979, which payments were made out of the proceeds from the Company's public offering. Interest income derived from the investment of surplus funds in certificates of deposit and commercial paper, at the high interest rates prevailing during nearly all of 1980, also contributed to the net reduction.

Income before income taxes and net income in 1980 increased by 27.1% and 28.1% respectively from 1979.

The public offering of 700,000 common shares, including 350,000 new shares, on August 7, 1979 increased the average shares outstanding during 1980 to 2,600,000 compared to an average of 2,390,959 shares during 1979. Accordingly, as a result of the 8.7% increase in average shares outstanding between periods, net income per share rose 18.0% to $3.02 in 1980 versus $2.56 per share in 1979, as compared to the percentage increase in net income reported in the preceding paragraph.

**Impact of Inflation.** The Company has experienced a significant increase in revenues and net income during the three years ended December 31, 1981 reflecting the growth of the aerospace industry and the continued acceptance of the Company's jet engine and gas turbine components. During this period, component selling prices generally increased from 6 to 12% in 1980 and from 7 to 14% in 1981. The balance of the Company's revenue growth is primarily due to volume increases and the inception of new engine programs in 1980 and 1981. The Company's profit margin during the period has remained relatively constant because economies of scale and production cost efficiencies associated with the increase of in-house manufacturing have offset the inflationary effect on labor and manufacturing expenses. Charges to operations for depreciation represent the allocation of historical costs incurred over the past years and are less than if they were based on the current cost of productive capacity being consumed.

# Selected Financial Data

| | Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| *In thousands except per share data* | **1981** | 1980 | 1979 | 1978 | 1977 |
| Net Sales | **$81,809** | $64,839 | $47,117 | $33,509 | $27,199 |
| Net Income | **9,441** | 7,843 | 6,124 | 3,660 | 2,371 |
| Earnings per share | **$3.63** | $3.02 | $2.56 | $1.40 | $ .68 |
| Average Number of Shares Outstanding | **2,600** | 2,600 | 2,391 | 2,609 | 3,494 |
| Total Assets | **$60,292** | $50,138 | $32,589 | $21,307 | $18,019 |
| Working Capital | **19,497** | 14,772 | 12,847 | 6,443 | 5,561 |
| Long Term Debt | **256** | 899 | 1,436 | 3,158 | 2,224 |
| Cash Dividends Declared Per Share | **$ .39** | $ .30 | $ .18 | $ .10 | $ .07 |
| Stockholders' Equity | **$35,892** | $27,465 | $20,402 | $10,177 | $10,011 |

## Unaudited Interim Financial Information

| *In thousands except per share data* | Three Months Ended | | | |
|---|---|---|---|---|
| **1981** | March 31 | June 30 | Sept. 30 | Dec. 31 |
| Net Sales | $21,077 | $21,149 | $19,659 | $19,924 |
| Gross Profit | 5,986 | 6,058 | 4,910 | 4,249 |
| Income Before Income Taxes | 5,099 | 5,046 | 3,917 | 3,213 |
| Income Taxes | 2,400 | 2,345 | 1,695 | 1,394 |
| Net Income | 2,699 | 2,701 | 2,222 | 1,819 |
| Earnings Per Share | 1.04 | 1.04 | .85 | .70 |
| Dividends Per Share | .09 | .10 | .10 | .10 |
| **1980** | March 31 | June 30 | Sept. 30 | Dec. 31 |
| Net Sales | $15,876 | $16,689 | $15,253 | $17,021 |
| Gross Profit | 4,634 | 4,865 | 3,452 | 4,576 |
| Income Before Taxes | 4,012 | 4,139 | 2,778 | 3,443 |
| Income Taxes | 1,900 | 1,975 | 1,220 | 1,435 |
| Net Income | 2,112 | 2,164 | 1,558 | 2,008 |
| Earnings Per Share | .81 | .83 | .60 | .77 |
| Dividends Per Share | .06 | .07 | .08 | .09 |

## Market Price on American Stock Exchange*

| | 1981 | | 1980 | | 1979 | |
|---|---|---|---|---|---|---|
| **Quarter** | High | Low | High | Low | High | Low |
| First | 43¾ | 34¾ | 33⅞ | 20⅛ | – | – |
| Second | 50 | 37¾ | 28⅜ | 22⅞ | – | – |
| Third | 54 | 30⅝ | 35⅜ | 23 | 18⅝** | 14¼** |
| Fourth | 42 | 35½ | 43 | 20⅛ | 22⅜ | 13⅝ |
| Year | 54 | 30⅝ | 43 | 20⅛ | 22⅜ | 13⅝ |

* Based on American Stock Exchange monthly detail reports

** Based on NASDAQ composite quotations prior to listing on American Stock Exchange

# *Directors and Officers*

## Directors

| | |
|---|---|
| Douglas F. Hunter | *President and Chief Executive Officer* |
| Jack M. Fischer | *Treasurer* |
| Paul R. McElhiney | *Secretary-Treasurer, Walbar of Arizona, Inc.* |
| Neal J. Curtin | *Partner, Bingham, Dana & Gould – Lawyers* |
| John Q. White | *President, Walbar of Arizona, Inc.* |
| H. Dustin Kilgore, III | *President, Walbar Metals, Inc.* |
| James E. Shute | *General Manager, Walbar, Inc.* |
| Richard A. Wiley | *Executive Vice President, First National Bank of Boston* |
| Walter W. Ungermann | *Proprietor, Charter Business, Barnstable, MA.* |
| James F. Farr | *Partner, Haussermann, Davison & Shattuck – Lawyers* |

## Officers

| | |
|---|---|
| Douglas F. Hunter | *President and Chief Executive Officer* |
| Jack M. Fischer | *Treasurer* |
| Neal J. Curtin | *Clerk* |

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### Subsidiaries

Walbar Metals, Inc.
*Peabody Industrial Center*
*P.O. Box 3369*
*Peabody, MA 01960*

Ellis Tool & Die Co., Inc.
*36 Winter Street*
*Malden, MA 02148*

Walbar of Arizona, Inc.
*811 West Broadway*
*Tempe, AZ 85281*

Walbar of Florida, Inc.
*PO Box 337*
*Indiantown, Fla. 33456*

Walbar of Canada Inc.
*1865 Sharlyn Rd.*
*Mississauga, Ontario*
*(Toronto) Canada*

Turbo Tool Division
*3146 Lenworth Drive*
*Mississauga, Ontario*
*(Toronto) Canada*

### General Offices

Peabody Industrial Center
P.O. Box 3369
Peabody, MA 01960

### Registrar and Transfer Agent

The First National Bank of Boston
100 Federal Street
Boston, MA 02110

### Counsel

Bingham, Dana & Gould
100 Federal Street
Boston, MA 02110

### Auditors

Arthur Andersen & Co.
100 Federal Street
Boston, MA 02110

### Stock Listing

American Stock Exchange
Ticker Symbol WBR

### Form 10-K

The Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, will be available in April. Shareholders may obtain a copy of this report without charge by writing to Walbar, Inc., Peabody Industrial Center, P.O. Box 3369, Peabody, MA 01960, Attention: Shareholder Relations

WALBAR

Walbar, Inc.,
Peabody Industrial Center,
P.O. Box 3369
Peabody, Massachusetts 01960